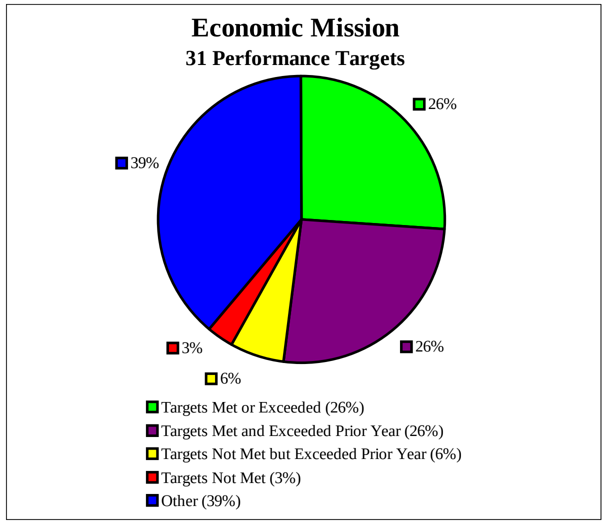
ECONOMIC MISSION AREA SUMMARY

MISSION: Promote Prosperous and Stable American and World Economies

The Department of the Treasury has primary responsibility for formulating and recommending domestic and international economic, financial, and fiscal policies that affect growth and stability.

This mission area is supported by several Departmental Offices (including the Offices of Domestic Finance, Economic Policy, Enforcement, International Affairs, and Tax Policy), the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Community Development Financial Institutions Fund, the U.S. Customs Service and the Bureau of Alcohol, Tobacco and Firearms.



FY 1999 Highlights:

Goal: Promote Domestic Economic Growth

On the domestic side, Treasury continued to work closely with Executive Branch agencies and offices to monitor economic outlook and policy issues, including the determination of the Administration's economic assumptions, development of Administration policies and policy positions, and evaluations of alternative policy proposals.

- In FY 1999, the Administration put forward several proposals to both reform Social Security and to modernize and strengthen the Medicare program. Treasury provided substantial input into these proposals.
- Treasury developed many policy proposals to encourage workers and employers to increase pension saving and households to increase other saving from current income, including: coverage of lower-wage workers and Universal Savings Accounts; reducing expenses and complexity for small business retirement plans; accelerated vesting for matching contributions; enhanced retirement security for women; promoting IRA contributions through payroll deduction; and promoting retirement savings education.
- Treasury worked diligently with Congress on passage of the Gramm-Leach-Bliley Act of 1999, the most significant financial modernization legislation in fifty years. The legislation requires several new initiatives that Treasury will be undertaking, such as a privacy study; a subordinated debt study; regulations on determining an indexing mechanism for asset size limit on subsidiaries of banks; criteria comparable to debt ratings for banks having subsidiaries; and procedures for approving new activities.
- During FY 1999, Treasury worked to develop the Administration's Plan for Financial Privacy and Consumer Protection in the 21st Century to protect financial privacy, expand consumer rights, and prevent fraud and abusive practices.

Goal: Maintain U.S. Leadership on Global Economic Issues

Treasury provided leadership through bilateral and multilateral efforts to calm the turmoil that engulfed the global financial system for much of the past two years. Treasury developed proposals to strengthen the stability of the global financial architecture and to reform and improve the effectiveness of the International Monetary Fund.

Treasury worked with other U.S. agencies, other nations and international organizations to improve cooperation between industrial nations, and developing or emerging market economies to promote sustainable economic growth, increase trade, help reduce world poverty, eradicate infectious diseases through vaccination, and resolve global environmental problems. Some key accomplishments include:

- Treasury provided leadership through bilateral and multilateral efforts that helped calm the turmoil that engulfed the global financial system for much of the past two years. For example, in the wake of the Asian financial crisis, Treasury formed a special task force, which crafted a comprehensive set of U.S. proposals to reform the global financial system or architecture. These recommendations were adopted almost in their entirety by the G-7 in its *Report of the G-7 Finance Ministers on Strengthening the International Financial Architecture* and were endorsed by the G-7 leaders in June 1999.

- Treasury proposed a broad reform plan to improve the internal operations and cost effectiveness of the International Monetary Fund. Additionally, the U.S. and other donors to the World Bank agreed on a strong set of recommendations to the Bank for more open procedures, a stronger link between lending allocations and performance of the recipient countries, and better cooperation between the Bank and regional development banks. Treasury supported sound environmental policies by securing a strong reform agenda for the Global Environment Facility, including performance measurements and fixed fees for project implementation.

- To help poor countries overcome crushing poverty, Treasury developed, as part of an overall economic reform program, an enhanced initiative for Heavily Indebted Poor Countries (HIPC). In June 1999, the U.S. and other lender nations agreed to cancel debt of almost $90 billion of the $127 billion falling due under specified criteria. Treasury worked with Congress to secure an initial “down payment” for relief of almost $4 billion in debt these poor countries owe the U.S.

- Treasury supported Administration plans to help fight infectious diseases in developing countries. These include a new financial commitment to purchase and deliver existing vaccines in poor countries; increased investments in health in developing countries whereby the World Bank and other development banks would apply $400 million to $900 million annually in low-interest-rate loans; increase in basic research on diseases that affect developing countries with emphasis on vaccines; and a new tax credit for sales of vaccines.

- Treasury led international efforts to deal with financial crises in Brazil and Indonesia. The Secretary endorsed a $40.5 billion support program for Brazil, which, combined with Brazil’s economic reforms, has been successful to date in stabilizing Brazil’s economic situation. Treasury closely monitored Indonesia’s economic developments and has worked closely with senior Indonesian economic officials to help resolve that country’s serious economic and financial problems. Indonesia’s currency has been strengthened, inflation has been sharply reduced, and the economy has stopped contracting.

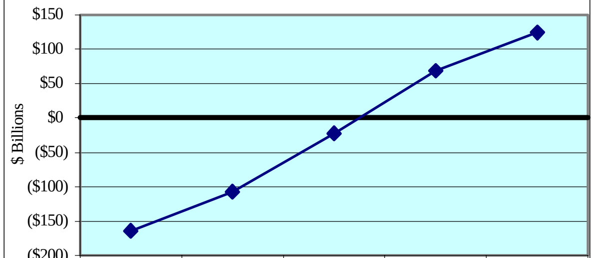
- A Treasury objective is to strengthen the Multilateral Development Banks (MDBs) such as the World Bank and other regional development banks, which provide loans and assistance to developing and transitional countries to help move their people out of poverty and toward prosperity. An indicator of U.S. performance is the amount of U.S. arrears (unpaid commitments) to the MDBs. U.S. arrears to MDBs are now up to $450 million, reversing three years of progress in reducing these arrears. The funding level requested in the FY 2000 President’s budget was not sufficient to meet U.S. commitments.

Treasury Objective: Balance the Budget by 2002

Key Trends:

The unified Federal budget was in surplus in FY 1998 (see Fig. 1), well ahead of the original FY 2002 target. In 1997, when the objective of balancing the budget by FY 2002 was established, available budget projections showed deficits continuing at around $100 billion per year. Since that time, ongoing fiscal responsibility and a strong economy have produced an improved budget outlook with growing unified budget surpluses into the future, leading to our first back-to-back budget surpluses in over forty years.

Fig 1: **Unified Budget Surplus/Deficit**



	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
$ Billions	($164.0)	($107.5)	($22.0)	$69.2	$124.4

Treasury Programs:

Treasury's **Office of Economic Policy**, **Office of Domestic Finance**, and **Office of Tax Policy** provide to White House and top Administration officials key analyses and information on budget policy, deficit reduction, and related issues. Treasury also provides critical support with regard to the Budget's revenue proposals by developing legislative proposals, estimating their revenue effect, and providing explanations of the Budget's revenue proposals to the public in conjunction with its release.

FY 1999 Accomplishments and Results:

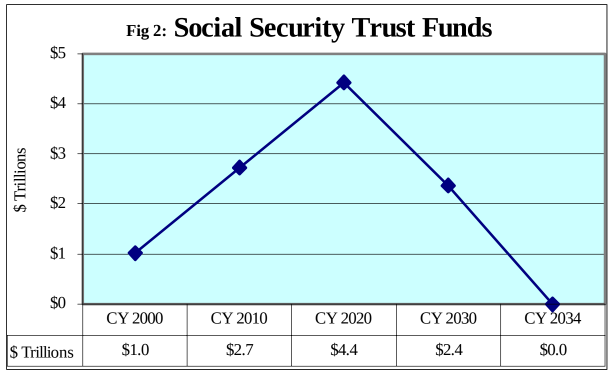
Treasury has played -- and will continue to play -- instrumental roles in evaluating various policy proposals, the performance of the economy and their implications for the on- and off-budget measures. Treasury has also been directly involved in interagency efforts and working groups regarding budget policy. Treasury worked closely with the White House, the Office of Management and Budget, the Council of Economic Advisors, and other Executive Branch agencies and offices to monitor economic outlook and policy issues, including the determination of the Administration's economic assumptions, development of Administration policies and policy positions, and evaluations of alternative policy proposals.

With a balanced unified budget, a new set of goals has emerged: Balance the on-budget account (that is, balance the Federal books excluding Social Security) and use the Social Security surpluses exclusively to pay down debt held by the public. It should be noted that in the past two years (FY 1998 – FY 1999), approximately $140 billion of the debt held by the public has been paid down after 29 years of increases.

Treasury Objective: Promote Long-Term Entitlement Reform

Key Trends:

Entitlement reform remains a major challenge for the Nation. Revenues for the Social Security Administration's Old-Age, Survivors, and Disability Insurance Program (OASDI), will exceed expenditures until 2014. Combined with interest earnings on the Trust Funds, this will result in rapid accumulation of assets through the early 2020s. Total income is then estimated to fall short of expenditures beginning in 2022 and each year thereafter. Consequently, Trust Fund assets would be redeemed to cover the difference until the funds are exhausted in 2034 (see Fig. 2).



The Medicare Trust Fund is projected to be exhausted by as early as 2015**.**

Treasury Programs:

The Secretary of the Treasury is the Managing Trustee of the Social Security and Medicare Trust Funds and is a leading member of the Administration's economic team. Treasury's Office of Economic Policy provides support to the Secretary in this capacity. Treasury plays a leading role in developing the assumptions on real wage growth, interest rates, and inflation that the Trustees use in evaluating the programs and in setting economic assumptions.

FY 1999 Accomplishments and Results:

In FY 1999, the Administration put forward several Social Security reform proposals, with Treasury providing substantial input for each of these proposals. In particular:

- Treasury contributed to the policy decisions to reserve budget surpluses for Social Security reform and the "Save Social Security First" pledge, to run a balanced on-budget* account, to transfer on-budget resources to the Social Security Trust Fund, and to invest a portion of the Trust Fund in equities.

- Treasury has also worked with other agencies to study various aspects of the Administration proposals, including their effect on national savings, implications for the on- and off-budgets, and the effect of Trust Fund investment strategy on equities markets.

- Treasury began participating in ongoing policy discussions on the elimination of the Social Security earnings test and increasing benefits for older low-income beneficiaries, particularly widows and single women.

  Treasury was also significantly involved in the development of the Administration's Medicare reform plan, released in June of 1999. This proposal sought to modernize and strengthen the Medicare program and prepare it for future challenges in a number of ways, including a greater use of competitive forces to foster the most effective use of scarce resources.

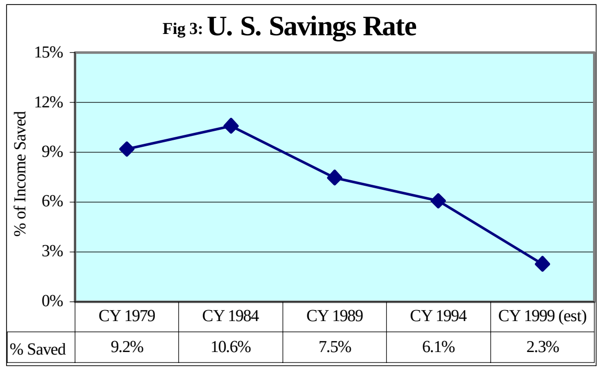
- Treasury played an active role in developing the Administration's views on the proposals for long-term Medicare reform, which would harness competitive forces to improve efficiency, reduce costs to the Government and provide a new prescription drug benefit.

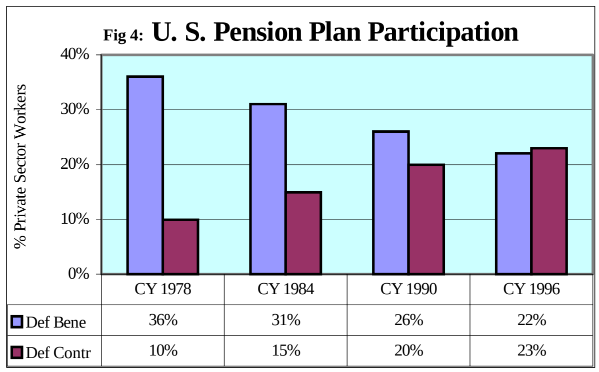
***** Note: The on-budget account excludes Social Security surpluses when calculating the Federal budget deficit/surplus.

- Treasury also analyzed Congressional proposals and Administration options in terms of their effects on different groups. This included those with and without current coverage for prescription drugs; those with and without a choice of private managed care plans in Medicare; those in areas of the country with high and low health costs; and those at different income levels.

Treasury Objective: Improve Retirement Security and Increase Savings

Key Trends:





Annual savings as a percentage of disposable personal income averaged around 9% from the 1960s through the 1980s. However, this rate declined drastically during the 1990's and remains under 3% today (see Fig. 3). As a result, a serious gap exists between the amounts Americans save from current income (through pension plans at work and other household saving) and estimated needs based upon current life-expectancy projections. The gap is greatest for low- and moderate-income Americans.

Clearly, Americans are now spending a greater percentage of their resources than they did in the past. The 1999 Economic Report of the President cites the expansion in wealth resulting from the dramatic run-up in stock prices and the ready availability of low interest credit as factors which are stimulating greater household spending.

Also, though private pension coverage continues to grow, half of American workers, more than 50 million people, are not covered by an employer retirement plan. Typically these are lower-wage workers, employees of small businesses, and women workers in general. Many part-time workers are not covered by Federal rules on pension plans. Statistics also indicate that while there is an increase in the percentage of private sector workers covered by defined contribution plans, which include 401(k) type plans, the percentage of those covered by traditional defined benefit plans continues to decrease (see Fig. 4). The portability of defined contribution plans favors job mobility, and workers' desire for more portable benefits may have contributed to the rise of these plans.

Treasury Programs:

Treasury's **Offices of Tax Policy and Economic Policy** develop policy proposals related to retirement and pensions plans. The office provides in-depth studies and analyses on trends and projections, as well as the implications of policy proposals.

FY 1999 Accomplishments and Results:

Treasury developed many policy proposals to encourage workers and employers to increase pension saving and households to increase other saving from current income, including:

- ***Retirement coverage of lower-wage workers and Universal Savings Accounts***. Treasury proposed a new system of Universal Savings Accounts (USA) which would provide retirement savings to millions of workers who are not covered by employer-sponsored pensions. These accounts would provide an automatic contribution from the Government to every covered worker. Those who contributed additional amounts would get matching contributions to their USA accounts.

- ***Reduce expenses and complexity for small business retirement plans.*** Treasury developed proposals to encourage small businesses to establish pension programs. These include a three-year tax credit, in lieu of a deduction, that would help reduce small business costs associated with establishing a pension plan or payroll deduction IRA arrangement, and a proposal for a retirement plan for small businesses that would avoid the need for complex actuarial calculations, also lowering administrative costs.

- ***Accelerated vesting for matching contributions***. Treasury developed a proposal to require that all employees be fully vested in the employer's matching contributions after three years of service compared to five years at present. This would increase portability and reduce losses of pension contributions for workers who change employers after only a few years. Women and lower-paid workers are a disproportionate number of these workers.

- ***Enhanced retirement security for women.*** The above proposals for vesting and new annuity options, while gender neutral, would primarily benefit women. Workers who take time off under the Family and Medical Leave Act (FMLA) would be able to count that time toward retirement plan vesting and eligibility requirements.

- ***Promoting IRA contributions through payroll deduction***. To make it easier for workers to increase household saving by contributing to IRAs, employers would be encouraged to offer payroll deduction. Small businesses establishing such arrangements would be eligible for the new pension program start-up tax credit, under certain conditions.

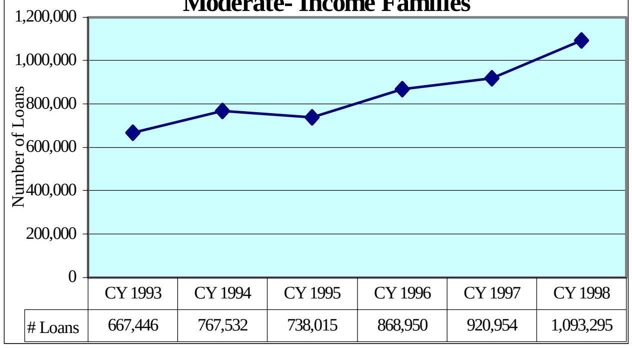
- ***Retirement savings education.*** One key to improving retirement savings by workers is to address the relative lack of employee interest in participating in retirement plans that already are available. Office of Economic Policy participated with other offices in Treasury in developing a proposal for a Government-wide education initiative that would promote savings and give Americans the financial management tools needed to build wealth.

Treasury Objective: Promote Fair and Efficient Delivery of Credit and Other Financial Services and Help Bring Residents of Distressed Communities into the Mainstream

Key Trends:

Recent national data indicate that the availability of capital for low- and moderate-income communities is improving. According to the Federal Financial Institutions Examination Council, the number of home loans extended to low- and moderate-income borrowers increased by 64% between FY 1993 and FY 1999 (see Fig. 5).

Fig 5: **Home Loans Extended to Low- to Moderate- Income Families**



Between 1997 and 1998 (the latest available data), these loans increased a total of 19 percent; the number of home loans to African-Americans increased by 9 percent; the number of home loans to Hispanics increased by 16 percent; and the number of home loans to Native Americans increased by 21 percent. According to the same data, access to credit for small businesses in low- and moderate-income communities is also improving. In 1998, banks and thrifts subject to Community Reinvestment Act (CRA) reporting requirements made $33 billion in small business loans to low- and moderate-income communities.

Federal Reserve data indicate that the number of families with bank accounts is also increasing. A 1998 Federal Reserve study found that the number of families with bank accounts increased from 87 percent in 1995, to 90.5 percent in 1998. Families with annual incomes between $10,000 and $25,000 comprised a significant portion of the increase; their proportion grew from 82.3 percent to 86.5 percent. The study found that the number of lower-income families without bank accounts fell from roughly 11 million in 1995 to 8.4 million in 1998.

Treasury Programs:

- ***The Office of Community Development Policy*** develops affordable housing policy and community development financial and tax policies, and policies on micro-enterprise development, brownfields redevelopment, fair lending, the Community Reinvestment Act, improved access to financial services, low-income savings strategies, Empowerment Zones and Enterprise Communities, New Markets, BusinessLINC, the District of Columbia and other matters.

- ***The Community Development Financial Institutions (CDFI) Fund*** promotes access and local economic growth by directly investing in and supporting CDFIs and by expanding financial service organizations' lending, investment, and services within underserved markets.

- ***The Office of the Comptroller of the Currency and the Office of Thrift Supervision***, pursuant to the Community Reinvestment Act (CRA), assess their institutions' record of helping to meet the credit needs of their entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations.

- ***The Community Adjustment Investment Program (CAIP)***, a partnership between the U.S. Government and the North American Development Bank, was established as part of the North American Free Trade Agreement. The CAIP's mission is to help create and sustain jobs in U.S. communities experiencing temporary job dislocations attributable to changing trade patterns with Canada and Mexico.

FY 1999 Accomplishments and Results:

- ***Community Reinvestment Act.*** The Treasury Department ensured that, with passage of the Gramm-Leach-Bliley Act, CRA maintained its relevance in the new financial services landscape. Under the Act, a bank or bank holding company is prohibited from commencing new activities authorized by the Act if any of its banks or bank subsidiaries fail to achieve a satisfactory CRA record on its most recent examination.

- ***CDFI Fund.*** During FY 1999, CDFI awarded over $112 million to more than 250 banks, thrifts, and community development financial institutions. Since 1996, CDFI has awarded more than $300 million to promote the expansion of lending and other financial services in underserved communities. In 1999, the CDFI Fund also expanded the list of eligible activities to include Electronic Transfer Accounts and Individual Development Accounts under the Bank Enterprise Award.

- ***Electronic Funds Transfer (EFT '99).*** In July 1999, Treasury announced the Electronic Transfer Account (ETA) program, to encourage financial institutions to offer low-cost, electronic banking accounts to "unbanked" Federal benefit recipients. Public education campaigns for both the EFT '99 and ETA continued throughout 1999, including grassroots education through community-based organizations.

- ***BusinessLINC.*** In 1998, Treasury launched BusinessLINC, a nationwide effort to encourage large businesses to work with and mentor small businesses, particularly those located in economically distressed areas. Its goal is to help smaller firms grow and succeed by increasing their access to technical skills, business advice, market knowledge, business contacts, and access to financial institutions and lines of credit. In 1999, six BusinessLINC local coalitions were launched nationwide, with each local BusinessLINC chapter headed by a local CEO. A national BusinessLINC coalition was also formed in 1999, and is now chaired by the Business Roundtable. The National Coalition will serve as a clearinghouse for best practices and assist in the establishment of new local BusinessLINC coalition members.

- ***CAIP Technical Assistance Grants.*** The CAIP launched a grant program that will provide up to $6 million in project and technical assistance grants to support the retention and creation of jobs to CAIP-eligible communities. To date, the CAIP has facilitated guarantees for 330 loans with an aggregate principal amount of $223.8 million. CAIP financing has helped to create or retain approximately 7,128 jobs in 26 states across the country.

Following is a report on the performance targets in Treasury's FY 1999 Performance Plan related to this objective:

Community Development Financial Institutions Fund Performance Goal: *Increase participation in the Fund's CDFI programs to facilitate local economic growth.*

	FY 1998 Actuals	FY 1999 Plan	FY 1999 Actuals
Number of CDFI's Receiving Assistance	112	125	125

Explanation of Measure: This measure captures the number of CDFIs receiving financial or technical assistance. The form of financial assistance depends on the individualized needs of a CDFI as reflected in a business plan, and its ability to raise private matching funds comparable in form and value.

Departmental Offices Performance Goal: *Promote domestic financial institutions and markets growth and stability, and community development through the development and implementation of effective programs and policies.*

Domestic Financial Institutions' and Markets' Growth and Stability, and Community Development	**FY 1998 Actuals**	**FY 1999 Plan**	**FY 1999 Actuals**
	--	Qualitative Progress	See Below

Explanation of Measure: This measure captures progress made in establishing policies, guidance, and analysis relative to financial institutions, financial regulations, availability of credit, community development, financial crimes, Federal debt, capital markets, privatization and sale of Government assets, and other issues related to domestic finance.

Explanation of Actuals:

- Treasury worked with Congress on passage of the Gramm-Leach-Bliley Act of 1999, the most significant financial modernization legislation in fifty years. The legislation requires several new initiatives that Treasury will be undertaking, such as a privacy study; a subordinated debt study; regulations on determining an indexing mechanism for asset size limit on subsidiaries of banks; criteria comparable to debt ratings for banks having subsidiaries; and procedures for approving new activities.

- During FY 1999, Treasury worked to develop the Administration's Plan for Financial Privacy and Consumer Protection in the 21st Century.

- In May, 1999, the President introduced legislative proposals and executive actions to protect consumers in the new economy based on five principles: (1) protect financial privacy; (2) expand the consumer's right to know; (3) prevent fraud and abusive practices; (4) expand access to financial services; and (5) educate consumers.

- The Department also proposed a "New Markets Initiative" to increase the flow of private sector equity capital to inner-city and rural businesses, and to help provide these businesses with the technical expertise and business networks that they need to grow and succeed.

Community Development Financial Institutions Fund Performance Goal: *Increase participation in the Fund's CDFI programs to facilitate local economic growth.*

Increase the Number of States with a CDFI Awardee	**FY 1998 Actuals**	**FY 1999 Plan**	**FY 1999 Actuals**
	--	45	45

Explanation of Measure: The Fund seeks to have at least one certified CDFI in every State in order to increase the geographic diversity of CDFIs receiving awards.

Community Development Financial Institutions Fund Performance Goal: *Increase the number of organizations engaged in community development finance that receive training or technical assistance.*

Number of Institutions that Receive Technical Assistance (total number)	**FY 1998 Actuals**	**FY 1999 Plan**	**FY 1999 Actuals**
	70	75	75

Explanation of Measure: The Fund seeks to increase the number of institutions that receive technical assistance over the number from the previous year. Through technical assistance, the Fund provides grants to CDFIs (or proposed CDFIs) that have organizational capacity needs and demonstrate significant potential for generating community development impact.

Community Development Financial Institutions Fund Performance Goal: *Increase direct investment by financial services organizations in distressed communities and to underserved populations.*

Number of Bank Enterprise Award (BEA) Awardees that Provide Financial or Technical Assistance to CDFIs (total number)	**FY 1998 Actuals**	**FY 1999 Plan**	**FY 1999 Actuals**
	79	80	81

Explanation of Measure: This measures the number of institutions that have received an award for financial or technical assistance under the BEA Program and provide assistance to CDFIs. The BEA Program provides incentives for insured depository institutions to increase their investments in CDFIs and to increase their lending and provision of financial services in distressed communities.

Community Development Financial Institutions Fund Performance Goal: *Federal Government efforts to assist microenterprise are coordinated through interagency working groups.*

Establish an Interagency Work Group and Website	**FY 1998 Actuals**	**FY 1999 Plan**	**FY 1999 Actuals**
	--	Establish Workgroup	Established Workgroup

Explanation of Measure: A work group of Federal agencies having an interest in microenterprise to assist and raise awareness of the microenterprise industry was to be established in FY 1999, with a website to be developed during FY 2000.

Community Development Financial Institutions Fund Performance Goal: *Increase participation in the Presidential Awards for Excellence in Microenterprise Development.*

Increase the Number of Applicants for Microenterprise Awards Over the Previous Round	**FY 1998 Actuals**	**FY 1999 Plan**	**FY 1999 Actuals**
	--	30	15

Explanation of Measure: This measure captures the Fund's goal to raise awareness of the microenterprise industry, and compares the number of applicants for each round.

Explanation of Shortfall: The Fund believes that the shortfall may be due to the fact that this is not a monetary award (therefore, the number of applicants is not as high). Increased outreach and information dissemination are planned for FY 2000, with a target of increasing the number of applicants to a total of 35.

Treasury Objective: Improve and Modernize the U.S. Financial System

Key Trends:

Modernizing America's financial services industry to improve and enhance services to customers, and to increase efficiencies for financial services companies, has been an important policy objective for many years. Over time, the financial market and regulators had used a variety of innovations to try to undo the separation of services (and restrictions on offering their products) that Federal law had established well over 65 years ago. These divisions and distinctions resulted in substantial competition, but competition that was largely inefficient and costly, blurry and unstable, and not in the public interest.

The Gramm-Bliley-Leach Act, enacted in November 1999, made several key improvements. The legislation:

- Established a new financial services system by allowing the affiliation of financially-related firms (i.e., banks, securities firms, insurance companies), and by allowing nationally-charted banks to expand their activities and offer any service.

- Improves and protects the Community Reinvestment Act (CRA) while at the same time extending the examination period for banks with satisfactory or outstanding CRA ratings.

- Protects consumer privacy by guaranteeing that every bank must tell every customer what its privacy policy is, by assuring that every customer can opt out by changing to another bank if they do not like how they are treated, and by requiring that any bank which is considering use of private information outside the institution give the customer the opportunity to simply say no.

Treasury Programs:

- ***Treasury's Office of Domestic Finance*** provides analyses, recommendations, and policy advice in the areas of domestic finance, banking, fiscal policy and operations, and other related economic matters, including development of policies and guidance in the area of financial institutions.

- ***The Office of the Comptroller of the Currency (OCC)*** acts as the administrator of nationally-chartered banks. OCC oversees the execution of laws relating to national banks and promulgates rules and regulations governing the operations of national banks.

- ***The Office of Thrift Supervision's (OTS)*** primary statutory authority is the Home Owner's Loan Act (HOLA). Under HOLA, OTS is responsible for chartering, examining, supervising, and regulating Federal savings associations and Federal savings banks. HOLA also authorizes OTS to examine, supervise, and regulate state-chartered savings associations belonging to the Savings Association Insurance Fund and provide for the registration, examination, and regulation of savings association affiliates and holding companies.

FY 1999 Accomplishments and Results:

- Treasury worked diligently with Congress on passage of the Gramm-Leach-Bliley Act of 1999, the most significant financial modernization legislation in over 50 years. The legislation requires several new initiatives that Treasury will be undertaking, such as a privacy study; a subordinated debt study; regulations on determining an indexing mechanism for asset size limit on subsidiaries of banks; criteria comparable to debt ratings for banks having subsidiaries; and procedures for approving new activities.

- Treasury continued its efforts to protect the banking and finance, telecommunications, energy, transportation, and other sectors of the national economy from attack. The five-year goal is to achieve the ability to protect the Nation's critical infrastructures from disruptions from a full range of causes, including physical attack, terrorism, accidents, and natural disasters. Treasury's Office of Financial Institutions is responsible for working with the banking and finance sector to build a public-private partnership to implement the project.

- In the past year, the banking and finance sector has established working groups that: (1) are assessing the vulnerabilities of the sector to infrastructure attack and recommending ways to eliminate significant vulnerabilities; and (2) have developed an information-sharing and analysis center for identifying and preventing attacks. The center allows members to share information anonymously and protect themselves from intrusions into their electronic information system. This center, which is currently a pilot project, will be opened to wide industry membership in FY 2000.

- Treasury worked to develop the Administration's Plan for Financial Privacy and Consumer Protection in the 21st Century. In May 1999, the President introduced legislative proposals and executive actions to protect consumers in the new economy based on five principles: (1) protect financial privacy; (2) expand the consumer's right to know; (3) prevent fraud and abusive practices; (4) expand access to financial services; and (5) educate consumers. Many of the President's proposals were included in the Gramm-Leach-Bliley Act.

Following is a report on the performance targets in Treasury's FY 1999 Performance Plan related to this objective:

Departmental Offices Performance Goal: *Promote domestic financial institutions and markets growth and stability, and community development through the development and implementation of effective programs and policies.*

Domestic Financial Institutions' and Markets' Growth and Stability, and Community Development	**FY 1998 Actuals**	**FY 1999 Plan**	**FY 1999 Actuals**
	--	Qualitative Progress	See Below

Explanation of Measure: This measure captures progress made in establishing policies, guidance, and analysis relative to financial institutions, financial regulations, availability of credit, community development, financial crimes, Federal debt, capital markets, privatization and sale of Government assets, and other issues related to domestic finance.

Explanation of Actuals: As detailed above, Treasury worked with Congress on passage of the Gramm-Leach-Bliley Act of 1999, the most significant financial modernization legislation in over 50 years. Also:

- During FY 1999, Treasury worked to develop the Administration's Plan for Financial Privacy and Consumer Protection in the 21st Century.

- In May 1999, the President introduced legislative proposals and executive actions to protect consumers in the new economy based on five principles: (1) protect financial privacy; (2) expand the consumer's right to know; (3) prevent fraud and abusive practices; (4) expand access to financial services; and (5) educate consumers.

- The Department also proposed a "New Markets Initiative" to increase the flow of private sector equity capital to inner-city and rural businesses, and to help provide these businesses with the technical expertise and business networks that they need to grow and succeed.

Treasury Objective: Promote the Integrity and Efficiency of the Nation's Financial Markets

Treasury Programs:

Treasury is committed to making sure that the Nation's financial markets remain the most liquid and efficient in the world. Following the near collapse of Long-Term Capital Management (LTCM) in 1998, the public and private sectors have been increasingly concerned about the systemic risk posed by the potential failure of such an institution. The need to reduce systemic risk, in particular by improving market transparency and financial disclosure between counter-parties, was the impetus for a report prepared by the President's Working Group on Financial Markets.

The continued growth and development of the over-the-counter (OTC) derivatives market in the United States has been threatened by legal uncertainty under the Commodity Exchange Act. This vast institutional market could migrate overseas unless reforms are made to the regulatory structure. The creation of legal certainty for OTC derivatives, and the improvement of the efficiency, transparency and liquidity of the OTC derivative markets, was also the subject of a report by the President's Working Group.

The President's Working Group on Financial Markets, chaired by the Secretary of the Treasury and including the Chairmen of the Securities and Exchange Commission, the Commodity Futures Trading Commission, and the Federal Reserve Board, provides a forum for the discussion of relevant issues, and produces reports on subjects of importance to the financial markets. In addition, Treasury works directly with Congress and the private sector to promote initiatives that will serve to increase the integrity and efficiency of the financial markets.

FY 1999 Accomplishments and Results:

- The President's Working Group on Financial Markets prepared two reports during FY 1999. The first, *Hedge Funds, Leverage, and the Lessons of Long-Term Capital Management* provided an analysis of the events surrounding the LTCM crisis and a series of recommendations designed to mitigate systemic risk in the financial system. The report has been well received by Congress and the private sector, which has formed industry groups to discuss and implement the report's recommendations.

  The second report, *Over-the-Counter Derivatives and the Commodity Exchange Act*, provides a series of recommendations designed to: promote efficiency, liquidity and transparency by providing legal certainty for certain derivatives contracts; reduce systemic risk through the development of appropriately regulated clearing systems; protect retail customers from unfair practices; and maintain U.S. leadership in the OTC derivatives market. Treasury is working with Congress, regulators and the private sector to accomplish these goals.

- Treasury also worked with Congress and industry groups on the issue of bankruptcy reform in FY 1999, and was instrumental in the reform legislation that passed the House of Representatives. The bankruptcy reforms contained in this legislation improve the regime for financial contract netting, thereby reducing systemic risk in the marketplace. [The Senate has recently passed a similar bankruptcy reform bill, which is in conference.]

Treasury Objective: Provide an Economic and Government Financial Policy Perspective on All Relevant Governmental Issues

Treasury Programs:

Many issues and proposals arise each year, from within both the Administration and the Congress, with economic or fiscal policy implications. Treasury analyzes these proposals in terms of the potential effects on the economy, sectors of the economy or the Federal budget. Included are proposals from, or being considered by, the National Economic Council, the Domestic Policy Council, the National Science and Technology Council, the National Security Council, Government commissions, interagency working groups and working groups within Treasury.

Treasury also provides economic and financial analyses and recommendations in the course of reviewing proposed legislation.

FY 1999 Accomplishments and Results:

Treasury provided analyses and support on several important issues during FY 1999.

- ***Bankruptcy Reform.*** Treasury assisted in the development of the Administration’s position promoting balanced reform of consumer bankruptcy laws and worked with Congress to improve proposed legislation. Balanced reform that both provides essential protection to consumers and reduces opportunities for avoiding full payment of debt is needed to preserve the benefits of the increase in the kinds and amounts of financial services available. It also provides appropriate protection against the increased risks of consumer defaults arising from the additional complexity of consumer options.

- ***Natural Disaster Insurance.*** Treasury assisted in developing the Administration’s position on insurance against losses due to large natural disasters and worked with Congress to assure that proposed legislation reflected the Administration’s stance. The Administration supports the need for a carefully designed Federal intervention to enhance the stability of insurance markets for this risk in the interim, while private markets develop the capability to offer coverage.

- ***Environment.*** Treasury has been an active participant in the development of U.S. negotiating positions on climate change. These analyses enabled the Department to successfully argue policies that would lower the costs of meeting commitments in the Kyoto Protocol and promote the creation of a robust, liquid market for emissions permits. We have also successfully promoted more careful assessments of the benefits of domestic environmental regulations based on cost effectiveness.

- ***Agriculture.*** Treasury analyzed a number of proposed changes in agriculture policy this year. This work supported proposals for more efficient, less market-distorting, emergency aid to farmers. Treasury continues to work with Department of Agriculture and White House staff to formulate policies to restructure the farm safety net.

- ***Tobacco.*** Treasury has played a lead role in the Administration's efforts to develop and evaluate new policies for tobacco, and cigarettes in particular. Treasury’s Office of Economic Policy served as the key source in the Federal Government for economic analysis of tobacco policy proposals, and specifically, for analyzing the effects of policy proposals on tobacco use by underage individuals. Treasury worked closely on this issue with the White House and other Executive Branch and independent agencies, including the Office of Management and Budget, the Department of Health and Human Services, and the Center for Disease Control. Our analyses of the economics of youth smoking and the resulting policy implications had direct effects on Congressional legislative proposals.

- ***Internet Gambling.*** Treasury's Office of Economic Policy played a major role in developing the Administration's approach to curtailing use of the Internet to facilitate illegal gambling. The Office analyzed proposals from other agencies, including proposed legislation, and identified significant omissions that would have greatly reduced their effectiveness.

- ***Electricity Restructuring.*** Treasury participated extensively with Department of Energy in drafting proposals for electricity restructuring for proposed Administration legislation. The Department provided analyses and support assuring that the Administration's proposals were clear on rules for implementing retail competition; Federal jurisdiction over transmission services; the uses and funding of the Public Benefits Fund; and the standards for encouraging alternative power sources. The Office of Tax Policy developed tax proposals regarding tax-exempt bonds for the utilities industry and decommissioning costs for the nuclear power industry.

Following is a report on the performance target in Treasury's FY 1999 Performance Plan related to this objective:

Departmental Offices Performance Goal: *Promote economic efficiency and domestic and global economic growth and stability through the development of sound and effective economic policies.*

	FY 1998 Actuals	FY 1999 Plan	FY 1999 Actuals
Development of Sound and Effective Economic Policies	--	Qualitative Progress	See Below

Explanation of Measure: This measure captures Treasury's efforts and progress made in establishing useful and effective policies and analysis related to economic and budget issues.

Explanation of Results: Many issues arise each year in which Treasury provides analysis of the effects on the economy, sectors of the economy or on the Federal budget. They include proposals under consideration in the National Economic Council, the Domestic Policy Council, the National Science and Technology Council, the National Security Council, Government commissions, interagency working groups and working groups in Treasury. Analyses and recommendations are also provided in the course of reviewing proposed legislation.

During FY 1999, Treasury provided analyses and support on several important issues, including: bankruptcy reform, natural disaster insurance, climate change, agricultural policies, tobacco policies, Internet gambling, and electricity restructuring. In addition, Treasury continued to play an instrumental role in evaluating various policy proposals regarding budget policy, entitlement reform, and paying down the national debt.

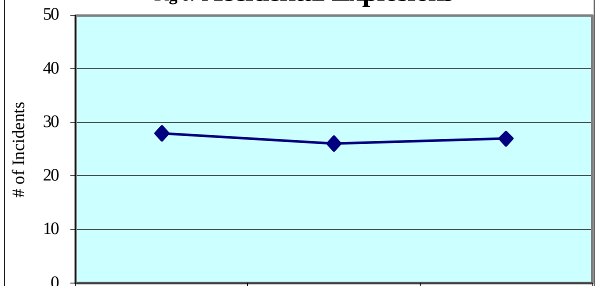
Treasury Objective: Protect the Public and Prevent Consumer Deception in the Alcohol, Tobacco, Firearms, and Explosive Industries

Key Trends:

One of the missions of the Bureau of Alcohol, Tobacco and Firearms (ATF) is to protect the public by ensuring that the alcohol, tobacco, firearms and explosives industries meet safety and product-identity standards and keeping ineligible or prohibited persons from entering these industries.

In the firearms/explosives arena, one indicator of success is the number of accidental explosions that occur despite ATF's inspections and industry training programs. The most recent data shows that the trend in this area has been relatively stable (see Fig. 6).

Fig 6: Accidental Explosions



	FY 1995	FY 1996	FY 1997
Incidents	28	26	27

ATF also works to prevent tainted alcohol or tobacco products from reaching the market. In recent years, there have been no instances of tainted alcohol or tobacco products reaching the market.

ATF's compliance programs for the alcohol and tobacco industries have been successful in that the ratio of violations to the number of inspections is decreasing. From FY 1997 to FY 1999, the number of violations found in the alcohol and tobacco industries per hundred inspections has decreased from 27 to 16. However, during that same period, the number of safety violations per hundred inspections in the explosives industry increased from 8 to 13. The increase may be attributable to improvements in ATF's inspection programs. These improvements include the creation of a standardized inspection workplan and the introduction of the Advanced Explosives Class, which trains inspectors on the latest explosives inspection techniques.

Treasury Programs:

In order to protect the public and prevent consumer deception, ATF has a number of programs designed to assure the integrity of the products, people and companies in the marketplace, encourage compliance with law and regulations through education, inspection and investigation, and inform the public when problems arise.

- ***Alcohol and Tobacco.*** ATF regulates the qualification and operations of distilleries, wineries, and breweries, as well as importers and wholesalers in the industry. To ensure alcohol beverage labels do not contain misleading information and adhere to regulatory mandates, ATF examines all label applications for approval. Tobacco inspections verify an applicant's qualification information, check the security of the premise, and ensure tax compliance. The ATF National Laboratory Center tests new products coming onto the market and determines whether any products currently on the market pose a health risk to consumers. In 1998, the ATF laboratories analyzed over 7,400 alcohol and tobacco samples and processed almost 7,000 new alcohol product applications. ATF is planning to build a new National Laboratory Center to upgrade the facilities of the Alcohol and Tobacco Laboratory.

- ***Firearms and Explosives.*** ATF also licenses and inspects firearms and explosives dealers, inspects their licenses to ensure that firearms and explosives transactions are properly recorded and that explosives are secure from theft and located prescribed distances from buildings and roads. ATF expects the number of unsafe conditions in the explosives industry to decrease eventually because the industry is becoming better informed and more compliant through ATF's focused programs. ATF anticipates that repeat violations will decline when the same industry members are inspected and informed of the legal requirements. When there is a history of repeat violations, this can be interpreted as willful and administrative procedures or criminal sanctions are available to address this problem. ATF also expects a public safety benefit from a focused inspection effort that uses trace and other indicators to identify firearms dealers associated with crime guns.

FY 1999 Accomplishments and Results:

ATF's FY 1999 key accomplishments include:

- Resolving over 1,400 public safety violations disclosed during explosive compliance inspections.
- Providing greater protection to the public by increasing (from 423 in FY 1998 to 582 in FY 1999) the number of alcohol products collected from the marketplace and analyzed by ATF's laboratories to ensure quality.
- Conducting trade practice investigations which curtail illegal marketing practices of alcohol beverages, partnering with the regulated industry to curtail misleading alcohol advertisements, and initiating regulatory changes to prohibit alcohol packaging directed toward youth.
- Preventing Middle Eastern cigarettes with high-nicotine content from reaching the market.

Following is a report on the performance targets in Treasury's FY 1999 Performance Plan related to this objective:

Bureau of Alcohol, Tobacco and Firearms Performance Goal: *Ensure regulated industries meet their eligibility, product and safety standards; maintain systems that are effective and efficient; and educate the public on regulated commodities.*

	FY 1998 Actuals	FY 1999 Plan	FY 1999 Actuals
Response to Unsafe Conditions and Product Deficiencies	1,071	825	923

Explanation of Measure: This measure tracks the number of corrections made to unsafe conditions reported to ATF from outside sources and found through its inspection activities.

	FY 1998 Actuals	FY 1999 Plan	FY 1999 Actuals
Commodity Seminars Held	227	175	229

Explanation of Measure: This measure shows the number of seminars conducted for permit holders in the alcohol, tobacco, firearms and explosives industries. These seminars are attended by state and local law enforcement officials and those on alcohol are conducted jointly with state alcohol beverage control agencies. These seminars provide current information on the laws and regulations pertaining to these commodities, any changes in ATF policies, and an opportunity to discuss industry issues. The seminars also allow ATF to form partnerships with these regulated industries to help prevent accidents in the firearms and explosives industries.

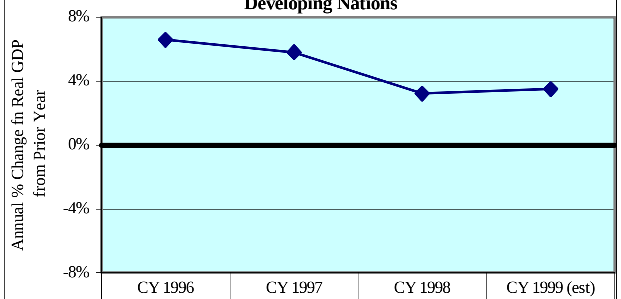
Treasury Objective: Promote the Implementation of Sound Economic Policies in Developing and Emerging Market Economies

Key Trends:

Economic growth in developing countries can reduce poverty, improve regional stability, and advance democracy and the rule of law. In an increasingly interdependent world, one Nation's economic crisis may become a global economic issue that affects the U.S. economy and thus every American.

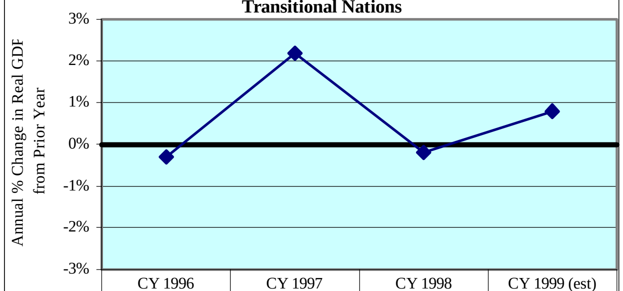
A key indicator of progress and sound economic policies in developing countries is the annual growth rate in their real Gross Domestic Product (GDP). Overall, there has been positive growth in each of the past four years in developing countries (see Fig. 7). In "transitional" countries, which are moving from a Government-controlled economy to a market-based economy (in Central and Eastern Europe, Russia, and Central Asia), annual growth rates were positive in 1997 and 1999. (see Fig. 8).

Fig 7: Real GDP Growth
Developing Nations



	CY 1996	CY 1997	CY 1998	CY 1999 (est)
GDP Growth	6.6%	5.8%	3.2%	3.5%

Fig 8: Real GDP Growth
Transitional Nations



	CY 1996	CY 1997	CY 1998	CY 1999 (est)
GDP Growth	-0.3%	2.2%	-0.2%	0.8%

Treasury Programs:

Treasury promotes sound economic programs and policies and encourages needed economic reforms in developing countries and transitional nations. In pursuing U.S. foreign economic policy objectives with these nations, Treasury works closely with other Government agencies and international organizations.

Treasury gives developing and transitional countries on-site technical assistance and expert advice in tax, budget, financial institutions and banking, Government debt issuance and management, and financial crimes enforcement. Treasury has over 40 resident advisors stationed in some 30 countries and provides intermittent assistance to another 10 countries.

Through several means, Treasury helps developing and transitional countries reduce or defer the debt they owe the U.S. and other countries. These measures include multi-national debt relief or debt deferral programs, such as the "Heavily Indebted Poor Countries" (HIPC) initiative, agreements between the U.S. and individual countries, and the coordinated efforts of the Paris Club, an ad hoc group of official creditor nations, to reduce or reschedule the debt these developing nations owe them.

CY 1999 Accomplishments and Results:

Treasury made significant strides in reducing or rescheduling the external debt of developing and transitional countries.

- ***Heavily Indebted Poor Countries.*** To help poor countries overcome crushing poverty, and as part of an overall economic reform program, Treasury developed and helped implement the Administration's enhanced HIPC initiative to relieve more of the debt owed by thirty-three Heavily Indebted Poor Countries (mostly in Africa). Treasury worked with international institutions, lenders in other countries, and non-Governmental organizations to develop an economically sound proposal for this initiative. At a June 1999 meeting in Cologne, Germany, the lenders agreed to cancel debt of about $90 billion of some $127 billion falling due under specific criteria. Treasury worked with the Congress to secure a "down payment" for relief of almost $4 billion of debt these poor countries owe the U.S.

- ***Debt Relief and Tropical Forest Conservation.*** The Tropical Forest Conservation Act of 1998 allows the U.S. to offer debt relief to developing countries who agree to protect their tropical forests. In 1999, Treasury began implementing the Act and determining which nations were eligible for this relief. Congress appropriated $13 million for this effort in the FY 2000 budget.

- ***Coordinated Efforts of Creditor Nations.*** Treasury participates in regular meetings of an ad hoc group of official creditor nations, the "Paris Club." Through this group, the major lending nations coordinate their debt reduction and rescheduling agreements on the debt owed to them by developing and transitional countries. In FY 1999, the creditor nations committed to debt reduction or debt rescheduling for Russia, Bosnia, Pakistan, Jordan, Honduras, Zambia, Bolivia, Guyana, Mozambique, Nicaragua, and Macedonia.

Treasury can also point to 1999 results in recommending and/or helping bring about economic reform in developing and transitional nations with serious financial and economic problems.

- ***Asian Financial Crisis.*** Treasury helped East Asian nations recover from the Asian financial crisis by encouraging them to make needed economic reforms and set appropriate economic policies. Of the nations most affected by the crisis (Indonesia, Korea, Malaysia, the Philippines and Thailand) all but Indonesia have resumed positive economic growth. The recovery is also producing renewed East Asian demand for U.S. goods and services.

- ***Indonesia.*** Treasury closely monitored Indonesia's economic developments and has been closely engaged with senior Indonesian economic officials to resolve that country's serious economic and financial problems. Indonesia's outlook has greatly improved from a year ago. Indonesian currency has strengthened, inflation has been sharply reduced, and the economy has stopped contracting. Treasury took the lead in getting the IMF to request that the Government take steps to end the bloodshed in East Timor and to take steps to resolve the Bank Bali scandal. These efforts helped improve foreign investor confidence, which is essential to resolving the country's financial problems and stabilizing its economy.

- ***Brazil.*** Treasury led international efforts to stabilize a financial crisis in Brazil. The Secretary endorsed a $40.5 billion support program for Brazil, which, combined with Brazil's economic reforms, has been successful in stabilizing Brazil's economic situation.

- ***Kosovo/Bosnia.*** Treasury provided financial technical assistance to Kosovo and worked with the International Financial Institutions to ensure they addressed the key economic issues and functions of the UN-led administration of Kosovo. Treasury played a lead role in achieving widespread acceptance throughout Bosnia of the new national currency and eliminating the Croatian and Serbian currencies in official transactions. Progress on key structural reforms in Bosnia has been difficult, although privatization of banks and small enterprises has begun.

- ***Russia.*** Treasury has been monitoring Russia's economic recovery after the debt default and devaluation in 1998. Treasury has encouraged Russian authorities to undertake long-delayed structural and institutional reforms, strengthen controls on use of Central Bank reserves, and take direct steps to combat corruption and strengthen the rule of law (e.g., passage of strong money laundering law). The U.S. and other nations signed an agreement in August 1999 to reschedule $8 billion in official debt from the Soviet era.

- ***Turkey.*** Treasury encouraged Turkey to make long-delayed reforms in banking, pensions and privatization. The new Turkish Government is committed to these reforms despite the serious hardships resulting from Turkey's devastating earthquakes.

Treasury supported Administration plans to help fight infectious diseases overseas.

- ***Vaccines***. In the FY 2001 budget, the President included $50 million to purchase vaccines for diseases that ravage poor countries (hepatitis B, meningitis, yellow fever). Funds will be invested in the Global Alliance for Vaccines and Immunizations, a new collaborative effort of UNICEF, the World Bank, World Health Organization, the U.S. and other governments, and private organizations around the world. The Administration is also increasing resources for basic research on diseases that affect developing countries. In addition, a new tax credit for U.S. pharmaceutical companies should encourage the development of vaccines for infectious diseases that occur primarily in the developing world (HIV/AIDS, malaria, TB). Finally, Treasury is working with other governments to encourage the World Bank and other multilateral development banks to dedicate $400 million to $900 million annually to expand immunization, prevent and treat infectious diseases and build effective delivery systems.

The following table reports on performance targets in Treasury's FY 1999 Performance Plan related to this objective. It should be noted that it is difficult to attribute successful performance in foreign affairs to a specific agency because international efforts are coordinated by several U.S. agencies. In addition, since the issues are complex and numerous factors affect the outcome, qualitative indicators must be considered as well as quantitative measures.

Departmental Offices Performance Goal: *Promote the implementation of sound economic policies in developing and emerging market economies.*

	CY 1998 Actuals	CY 1999 Plan	CY 1999 Actuals
Economic Conditions in Developing Countries	+3.2% * in GDP	Positive Growth	+3.5% (est) in GDP

Explanation of Measure: This measures the overall percent change in Gross Domestic Product from the prior calendar year for all developing countries.

***** Note: The 1998 performance report gave an estimated growth rate change (+2 %) in Gross Domestic Product for CY 1998. This was a *composite* number that included both developing countries and countries in transition from a Government-controlled to a market-based economy. The percent change in CY 1998 for <u>developing</u> countries was +3.2 %, as shown above.

	CY 1998 Actuals	CY 1999 Plan	CY 1999 Actuals
Debt Reduction Agreements for Poor Countries	10 Agreements	Qualitative progress	11 Agreements

Explanation of Measure: This measures the number of debt reduction and rescheduling agreements the U.S. entered into with poor countries to reduce or defer debt that these countries owed the U.S. A qualitative indicator of success is the leadership the U.S. has shown in getting other nations to relieve the debt owed to them by these poor countries. This is discussed above in the section, *FY 1999 Accomplishments and Results*.

Departmental Offices Performance Goal: *Promote the implementation of sound economic policies in developing and emerging market economies.*

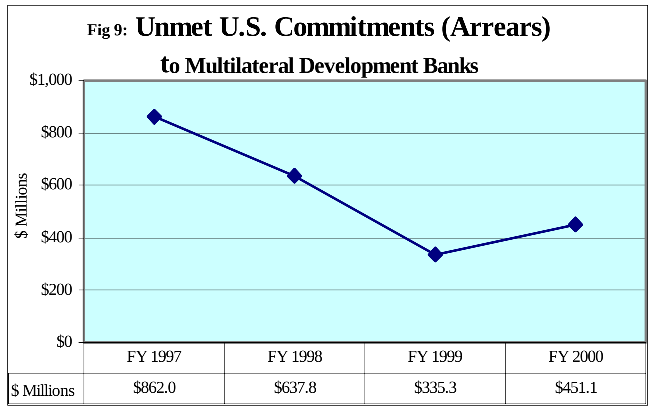
	CY 1998 Actuals	CY 1999 Plan	CY 1999 Actuals
Developing Countries' Acceptance of U.S. Recommendations for Economic Reforms	--	Qualitative Progress	See Below

Explanation of Measure: This measure is a qualitative description of the leadership the U.S. has shown in encouraging developing and transitional countries to implement needed economic reforms and appropriate policies. Treasury progress in achieving economic reform in several developing countries is discussed above in the section, *FY 1999 Accomplishments and Results*.

Treasury Objective: Strengthen International Financial Institutions and Support Their Efforts to Promote Sustainable Economic Growth, Development and Financial Stability

Key Trends:

International Financial Institutions (IFIs), such as the International Monetary Fund, the Global Environment Facility, and the Multilateral Development Banks (MDBs), including the World Bank and regional development banks, help the U.S. achieve its strategic objective of sustainable economic growth, development and financial stability. As a key member and major shareholder in these institutions, the U.S. must meet its financial commitments to them to show U.S. leadership and keep these institutions strong and effective.



MDBs provide loans and other assistance to developing and transitional countries to help them move their people out of poverty and toward prosperity. An indicator of U.S. performance is reducing U.S. arrears or unpaid commitments to the MDBs. The amount Congress appropriated for this in the FY 2000 budget was short of the request, leaving the MDBs underfunded. Now, U.S. arrears to MDBs are up to over $450 million, reversing three years of progress in eliminating these unmet commitments and undermining U.S. effectiveness in these institutions (see Fig. 9).

Treasury Programs:

Treasury plays an important role in the IFIs.

- The Secretary of the Treasury serves as U.S. Governor of several IFIs, including the International Monetary Fund (IMF). Although the U.S. is a large shareholder in most of the IFIs, the U.S. does not control or direct their operations. Treasury does, however, work with other shareholders and outside interest groups to push for improvements and reform in the IFIs and to obtain agreement on U.S. objectives. Treasury has encouraged the IFIs to strengthen internal controls, including measures that would minimize misuse of the loans countries receive.

- Treasury encourages the IFIs to carry out their responsibilities effectively, efficiently and in conformance with their mandates. Treasury promotes IFI financial stability, performance-based lending allocation, and greater openness and transparency of the IFIs' finances and operations. Additionally, Treasury seeks better coordination and cooperation among the IMF, the World Bank and regional development banks.

- Within the category of IFIs, but excluding the IMF, are the MDBs such as the World Bank and the development banks for specific regional areas, such as Asia, Africa, and the Americas. To strengthen the MDBs and increase U.S. influence and leadership in these institutions, the U.S. must fully pay its new commitments and pay the overdue amounts it owes (arrears). Treasury works with the Congress to secure timely payment of U.S. financial commitments to the MDBs.

- Treasury promotes sound global environmental policies by working with the IFIs, World Bank and regional development banks to urge them to adhere to high environmental standards in all their operations, including their lending practices. Treasury works closely with the Global Environment Facility, which funds projects to help developing countries deal with their environmental problems, which may ultimately affect the global environment.

FY 1999 Accomplishments and Results:

- ***Institutional Reform.*** Treasury proposed a broad reform plan to improve IMF effectiveness. Also, the U.S. and other donors to the World Bank agreed on a strong set of recommendations to the Bank for more open and transparent procedures, a stronger link between lending allocations and performance of the recipient countries, and better cooperation between the World Bank and regional development banks. Treasury supported sound environmental policies by proposing and securing a strong reform agenda for the Global Environment Facility, including performance measurement and fixed fees for project implementation.

- ***Payment of Arrears.*** The MDBs, such as the World Bank and regional development banks, provide loans and assistance to developing and transitional countries to help them move their people out of poverty and toward prosperity. An indicator of U.S. performance is the reduction in U.S. unpaid commitments (or arrears) to the MDBs. Although arrears dropped to $335 million in FY 1999, the amount Congress appropriated in the FY 2000 budget was short of the request, bringing FY 2000 arrears up to $450 million and reversing three years of progress in eliminating these arrears.

- ***Global Environmental Efforts.*** At Treasury's urging, the World Bank committed to new energy and environmental strategies and now requires more comprehensive environmental impact assessments as a condition for its loans. However, the Bank does not yet have a strategy for making global environmental considerations a routine part of its lending operations. The Bank launched a new $150 million effort for developing countries to promote private sector energy development to reduce emissions of greenhouse gases. Similarly, $165 million for clean energy projects in East European transitional nations was set aside by the European Bank for Reconstruction and Development.

- ***Response to Natural Disasters and Conflicts.*** Treasury strongly encouraged IFI support through disaster assistance and debt relief to countries hit by natural disasters (Hurricane Mitch in Honduras and Nicaragua and earthquakes in Turkey) and countries recovering from major conflicts (Kosovo, Bosnia and East Timor).

- ***Direct Donor Resources.*** Treasury worked with the MDBs to reduce dependence on U.S. and other direct donor contributions through pricing changes, greater selectivity and graduation policies for recipient countries.

- ***Improved Institutional Openness and Transparency.*** At U.S.' urging, all regional development banks and the Global Environment Facility improved public access to their documents through the Internet. Treasury simultaneously secured measures to improve transparency at the International Monetary Fund, both within the institution itself and in the countries receiving financial assistance under IMF programs.

The following table reports on performance targets in Treasury's FY 1999 Performance Plan related to this objective. It should be noted that it is difficult to attribute successful performance in foreign affairs to a specific agency because international efforts are coordinated by several U.S. agencies. In addition, since the issues are complex and numerous factors affect the outcome, qualitative indicators must be considered as well as quantitative measures.

Departmental Offices Performance Goal: *Strengthen the International Financial Institutions and support their efforts to promote sustainable economic growth, development, and financial stability.*

U.S. Meets Current Financing Commitments and Pays All Arrears to Multilateral Development Banks (MDBs) (dollar value of arrears)	**FY 1998 Actuals**	**FY 1999 Plan**	**FY 1999 Actuals**
	$638 million	$310 million	$335 million

Explanation of Measure: This is a measure of the amount of unpaid commitments (arrears) that the U.S. owes to the MDBs.

Explanation of Actuals: Arrears dropped to $335 million in FY 1999, from the $638 million level in FY 1998. (Progress in eliminating arrears was reversed when Congress did not appropriate full funding in the FY 2000 budget, bringing FY 2000 arrears up to $450 million.)

Economic and Environmental Conditions in Countries Assisted through IFI Programs	**CY 1998 Actuals**	**CY 1999 Plan**	**CY 1999 Actuals**
	Developing Countries +3.2%* in GDP	Growth	Developing Countries +3.5% (est) in GDP
	Transitional Countries -0.2% in GDP	Growth	Transitional Countries +0.8% (est) in GDP

Explanation of Measure: This measures the percent change from the prior calendar year in Gross Domestic Product (GDP) in developing and transitional countries. Although there was not a specific indicator for improving environmental conditions in Treasury's FY 1999 plan, Treasury did encourage IFI development assistance to reduce environmental degradation and provide mechanisms to more effectively address global and regional environmental problems.

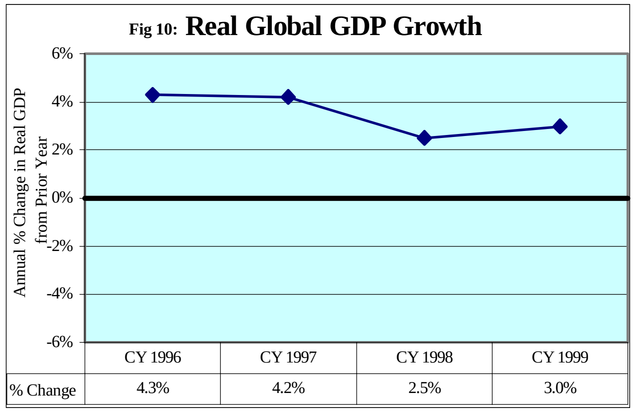
***** Note: The 1998 performance report gave an estimated growth rate change (+2 percent) in GDP for Calendar Year (CY) 1998. This was a *composite* number that included both developing countries and countries transitioning from a Government-controlled to market-based economy. The percent change in CY 1998 for developing countries was +3.2 percent.

Treasury Objective: Monitor the Global Economy and Promote International Economic Leadership through Cooperation on Economic Policy

Key Trends:

America's economic performance in recent years has been exceptional, but U.S. expansion depends on balanced and sustainable world economic growth, particularly in the major industrial economies of Europe and in Japan.

One indicator of success in achieving world economic growth is the rate of growth in global gross domestic product (GDP). In each of the past four years, there has been positive real growth in global GDP (see Fig. 10).



Treasury Programs:

Treasury plays a leadership role in promoting global economic cooperation. The Secretary of the Treasury meets regularly with the finance ministers of the "Group of Seven" industrialized nations (the G-7). These nations (Canada, France, Germany, Italy, Japan, the U.K. and the U.S.) work together to create a more secure, prosperous and democratic world though mutual trust, cooperation and assistance.

To include more nations in this kind of cooperative body, a new "Group of 20" (G-20) nations has recently been formed for the same purpose. The U.S. also has individual (bilateral) agreements with many countries to promote policies that are mutually beneficial.

1999 Accomplishments and Results:

- ***International Financial Architecture.*** In the wake of the Asian financial crisis, Treasury formed a special task force, which crafted a comprehensive set of U.S. proposals to reform the global financial system or architecture. These recommendations were adopted almost in their entirety by the G-7 in its *Report of the G-7 Finance Ministers on Strengthening the International Financial Architecture* and were endorsed by the G-7 leaders in June. The recommendations were: stronger international financial institutions, a greater voice for emerging market nations, more openness and transparency by Governments and lending institutions, stronger lending regulations, shared responsibility for crisis management, and a framework for private sector involvement in crisis prevention and resolution.

- ***G-20.*** To further increase economic coordination and cooperation among nations, Treasury proposed a new G-20 in which emerging market nations would participate with the industrialized nations of the G-7. The G-20 met for the first time in December 1999. In addition to the G-7 nations, members are Argentina, Australia, Brazil, China, the European Union (15 European countries), India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, and Turkey. With these nations at the table of economic cooperation, 80 percent of the world's economic production and 65 percent of its population will be represented.

The following table reports on performance targets in Treasury's FY 1999 Performance Plan related to this objective:

***Departmental Offices Performance Goal*:** *Monitor the global economy and promote international economic leadership through cooperation on economic policy.*

Economic Conditions of Foreign Countries that are Major U.S. Trading Partners	CY 1998 Actuals	CY 1999 Plan	CY 1999 Actuals
Canada	3.1%	Growth	4.2%
European Union (Euro area)	2.8%	Growth	2.1% (est)
United Kingdom	2.2%	Growth	2.0%
Mexico	4.6%	Growth	3.7%
Japan	-2.5% (Revised)	Growth	0.3%
China	7.8%	Growth	7.1%

Explanation of Measure: This measures the percent change over the prior calendar year in Gross Domestic Product of six major U.S. trading partners.

Treasury Objective: Facilitate Legitimate Trade, Enhance Access to Foreign Markets, and Enforce Trade Agreements

Key Trends:

As we integrate nations and people through trade, we invest in the future security of the U.S. and the rest of the world. One goal of U.S. international affairs policy is to open world markets through a strong, fully integrated international trading system.

A U.S. international strategic goal is to expand U.S. exports of goods and services to $1.2 trillion early in the 21st century, but more remains to be done to open foreign markets and reduce barriers to trade in U.S. goods and services. The U.S. exported $958.5 billion in goods and services in 1999 and imported $1.2 trillion. The difference is a 1999 trade "gap" of $271 billion. (see Fig.11).

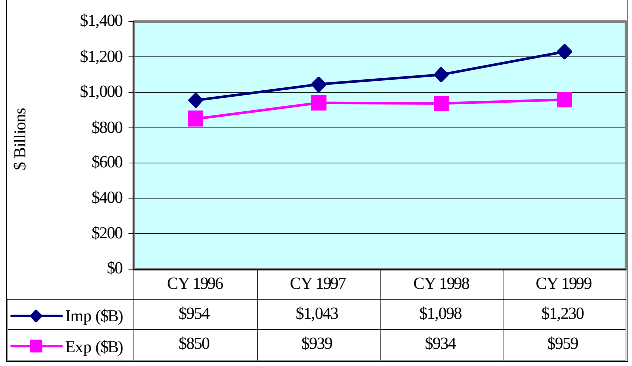


Fig 11: Value of U. S. Imports and Exports

Another aspect of this Treasury objective is enforcing trade agreements. The rate of compliance with U.S. trade laws is a success indicator of the enforcement efforts of the U.S. Customs Service and a reflection of Customs's partnerships with the trade community. The rate of compliance has been high but relatively flat over the past few years (see Fig. 12).

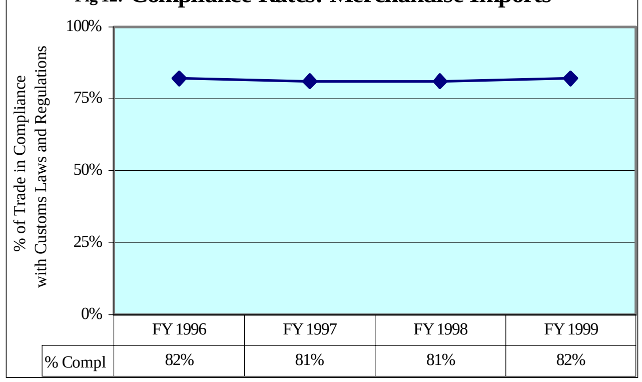


Fig 12: Compliance Rates: Merchandise Imports

Treasury Programs:

The Under Secretary for International Affairs and the Under Secretary for Enforcement, together with the U.S. Customs Service, work to achieve this trade objective.

- ***Under Secretary for International Affairs.*** The Under Secretary for International Affairs works with the Governments of other nations and with other Federal agencies such as the U.S. Trade Representative (USTR) to promote a strong and fully integrated international trading system. To open markets and encourage rules-based international trade, the USTR, with the advice and assistance of Treasury and other U.S. agencies, negotiate new agreements that liberalize trade. One strategy for opening world markets and reducing trade barriers is to expand World Trade Organization (WTO) membership to key emerging economic countries on a commercially meaningful basis.

- ***Under Secretary for Enforcement/U.S. Customs Service.*** The U.S. Customs Service, under the Under Secretary for Enforcement, administers and enforces trade agreements to ensure that all goods and persons entering and exiting the United States comply with U.S. trade laws and regulations. To increase compliance, Customs uses innovative programs and targeted enforcement actions. Customs works with industry partners to expedite the movement of compliant cargo and works with international trade organizations to standardize trade and Customs data.

FY 1999 Accomplishments and Results:

- ***Opening Foreign Markets.*** Treasury worked with other agencies to open foreign markets through multilateral, regional, and bilateral trade agreements. Accomplishments in 1999 included establishing the groundwork for launching multilateral negotiations on agriculture and services in the WTO, completing the first stage of the action plan for a Free Trade Area of the Americas agreement, and bilateral market-opening agreements such as the U.S.-Korea Auto Agreement, expanded Japanese commitments to regulatory reform, and greater access for U.S. magazines in Canada.

- ***China WTO Accession.*** Under the leadership of the Office of the U.S. Trade Representative, Treasury participated in the successful negotiation of a bilateral agreement on terms for China's entry into the World Trade Organization (WTO). China's accession to the WTO would benefit the U.S., China and the world economy by lowering Chinese trade barriers to the U.S. and other WTO nations and bringing such a large economy into the global, rules-based trading system. Not only will WTO membership contribute to China's prosperity and reform efforts, it will provide unprecedented access to China's growing market for U.S. manufacturers and service providers. In particular, Treasury led negotiations on increasing access to China's markets for U.S. banks and other financial services providers.

- ***Implementing U.S. Trade Laws.*** Treasury worked with other agencies to enforce rules to reduce foreign trade barriers and implement U.S. trade policy by developing and implementing the Steel Action Plan; developing safeguards measures under Section 201 for lamb and steel wire rod; and retaliating under Section 301 against the European Union for their failure to comply with WTO decisions on bananas and beef hormones.

- ***U.S. Banking and Securities.*** Treasury negotiated with 11 other countries seeking admission (accession) to the WTO, to obtain their commitment to market access in their countries for U.S. banking and securities firms.

- ***Expansion in Canadian Markets.*** Working with the U.S. Trade Representative (USTR) and other agencies to promote regional trade, Treasury won greater opportunities for U.S. banks to offer financial services and products in the Canadian market.

- ***Financial Institutions Report.*** Treasury completed and submitted to Congress a study examining the treatment and operations of foreign financial institutions in the U.S. and U.S. financial institutions in foreign countries. This report, the *National Treatment Study*, is prepared every four years.

- ***Trade Compliance.*** During FY 1999, Customs continued its efforts to improve trade compliance. Field examinations were more focused on high-risk importers, and key industry sectors were targeted for concentration. Additionally, Customs developed a new risk-management approach, which takes a more comprehensive look at compliance performance to target opportunities for improved voluntary compliance or for applying traditional enforcement efforts.

- ***U.S. Customs Service Participation in Negotiations.*** Customs participated in the negotiations of the Free Trade Area of the Americas, which began in the spring of 1999 and will go beyond previous trade agreements to include Customs clearance procedures. In addition, Customs participated in the Asian Pacific Economic Cooperation (APEC) negotiations, the expansion of the Caribbean Basin Initiative, and efforts to bring African nations into the mainstream of market economies.

The following table reports on performance targets in Treasury's FY 1999 Performance Plan related to this objective. It is difficult to attribute successful performance in foreign affairs to a specific agency because these efforts are coordinated by several U.S. agencies. In addition, since the issues are complex, and numerous factors affect the outcome, qualitative indicators must be considered as well as quantitative measures.

Departmental Offices Performance Goal: *Facilitate legitimate trade, enhance access to foreign markets and enforce trade agreements.*

Dollar Value of U.S. Exports of Goods and Services ($ in billions)	**CY 1998 Actuals**	**CY 1999 Plan**	**CY 1999 Actuals**
	$934	Growth	$958

Explanation of Measure: The measure is the dollar value of goods and services the U.S. exports to other countries.

Explanation of Actuals: In 1999, U.S. exports totaled $958 billion, a 2.6% increase over the 1998 level of $934 billion.

Departmental Offices Performance Goal: *Facilitate legitimate trade, enhance access to foreign markets and enforce trade agreements.*

Negotiate Bilateral and Multilateral Agreements to Provide Access for U.S. Financial Services Firms	**CY 1998 Actuals**	**CY 1999 Plan**	**CY 1999 Actuals**
	--	Qualitative Progress	See Below

Explanation of Measure: The U.S. negotiates agreements with individual countries and also negotiates multi-nation agreements to obtain commitments to allow U.S. financial services firms to do business in these countries.

Explanation of Actuals: In CY 1999, the U.S. negotiated with eleven countries seeking to join the World Trade Organization to get their commitment to market access in their countries for U.S. banking and securities firms.

Customs Service Performance Goal: *Maximize trade compliance through a balanced program of informed compliance, targeted enforcement actions, and the facilitation of complying cargo.*

Trade Compliance Level	**FY 1998 Actuals**	**FY 1999 Plan**	**FY 1999 Actuals**
	81%	85%	82%

Explanation of Measure: Overall compliance rate for imported goods. Compliance is determined by an intensive examination and analysis of a random sample of merchandise entering the country.

Explanation of Shortfall: Using risk management principals, Customs focused their resources on minimizing significant trade law discrepancies (such as shipments involving illegal narcotics, goods produced by forced labor, intellectual property rights violations, among others). Overall, 90 percent of import trade had no significant discrepancies in FY 1999, up from 89 percent in FY 1998. Although the specific performance target relating to overall trade compliance was not achieved, FY 1999 results improved over FY 1998 levels. In addition, Customs has recently implemented a risk management approach to raise compliance by focusing its resources on the accounts, industries, and commodities that have relatively low compliance levels.

Customs Service Performance Goal: *Maximize trade compliance through a balanced program of informed compliance, targeted enforcement actions, and the facilitation of complying cargo.*

Compliance with Trade Laws in Key Primary Focus Industries (PFIs)	**FY 1998 Actuals**	**FY 1999 Plan**	**FY 1999 Actuals**
	84%	87%	85%

Explanation of Measure: The weighted average of compliance rates for imported goods in the PFIs. The measure is calculated by dividing the estimated total number of entry lines of the industries into the estimated total number of compliance entries. PFIs are those trade areas that Customs gives priority attention to because of such factors as revenue, quota, and domestic industry impact. These industries include advance information displays, agriculture, automobiles, automobile and truck parts, bearings, board level products, fasteners, production equipment, steel mill products, telecommunications and apparatus, textiles and textile products, and wearing apparel.

Explanation of Shortfall: Using risk management principals, Customs focused their resources on minimizing significant trade law discrepancies (such as shipments involving illegal narcotics, goods produced by forced labor, intellectual property rights violations, among others). Overall, 91 percent of import trade had no significant discrepancies in FY 1999, up from 90 percent in FY 1998. Although the specific performance target relating to overall trade compliance was not achieved, FY 1999 results improved over FY 1998 levels. In addition, Customs has recently implemented a risk management approach to raise compliance by focusing its resources on the accounts, industries, and commodities that have relatively low compliance levels.

Customs Service Performance Goal: *Maximize the degree of compliance with U.S. export requirements in order to protect the United States national security, economic interests, and the health and safety of the American people while simultaneously facilitating international trade.*

Compliance with Key Export Requirements	FY 1998 Actuals	FY 1999 Plan	FY 1999 Actuals
	89.5%	New Baseline Under Development	New Baseline Under Development

Explanation of Measure: The percentage of total numbers of Bills of Lading filed timely compared to late filed documents.

Explanation of Shortfall: In FY 1997 and FY 1998 data was based on sampling five seaports. To improve accuracy, in FY 1999 and FY 2000, a new baseline is being developed to identify compliance by sea carriers.

Outbound Enforcement Targeting Effectiveness	FY 1998 Actuals	FY 1999 Plan	FY 1999 Actuals
	11%	7%	12%

Explanation of Measure: The total number of positive examinations (i.e., exams that result in a seizure, penalty, or discrepancy) divided by the total number of targeted examinations.

Number of Automated Export System (AES) participants	FY 1998 Actuals	FY 1999 Plan	FY 1999 Actuals
	7,652	30,000	33,665

Explanation of Measure: The total number of exporters submitting the required export data via the AES, the number of AES Shipper's Export Declaration transactions, and the percentage of all outbound shipments which are transmitted through AES.

Cost of Outbound Processing	FY 1998 Actuals	FY 1999 Plan	FY 1999 Actuals
	--	Baseline	Not Met

Explanation of Measure: This measure was not able to be defined for baseline purposes. The variables that would be used in the measure have not been determined.

Explanation of Shortfall: Reliable data was not available to establish a baseline during FY 1999. During FY 2000 Customs will determine the feasibility of adopting this measure by evaluating the methodology behind it, the ability to capture and validate the data, and the availability of information.

Customs Service Performance Goal: *Identify, disrupt, and dismantle entities employing illicit trade practices that negatively impact U.S. trade policies and laws.*

	FY 1998 Actuals	FY 1999 Plan	FY 1999 Actuals
Disruption of Fraudulent Trade Activities and Organizations	--	Qualitative Progress	See Below

Explanation of Measure: A narrative assessment of Customs effectiveness in disrupting organizations that are engaged in violating U.S. trade laws in the following programmatic priority areas: textile fraud, public health and safety, intellectual property rights, and forced labor.

Explanation of Actuals: During FY 1999, trade fraud investigative successes included the opening of 720 textile smuggling and transshipment related cases which resulted in 20 arrests, 8 indictments, 11 convictions, 43 seizures, and 1 penalty. These cases included:

- A seizure of 25 containers of textiles and wearing apparel valued at over $2 million, which was smuggled from China. This seizure was part of an undercover operation, where evidence that identified suspects who smuggled over 300 containers of textiles and wearing apparel from China, valued at approximately $100 million.

- In the area of cyber-smuggling, Customs continues to pursue violators aggressively committing crimes through use of the Internet or other electronic media, by disrupting and dismantling the international organizations involved in these crimes.

Treasury Objective: Help Strengthen the Stability and Efficiency of Global Capital Markets and Promote a Sound Global Policy Framework for International Investment

Key Trends:

As the world moves closer to a global economy, U.S. economic prosperity is increasingly linked to international investment, trade and capital flows. We can expand and open world markets through the free flow of capital worldwide, growth and greater efficiency in global capital markets, more international investment, and strong global financial systems that are less vulnerable to crises.

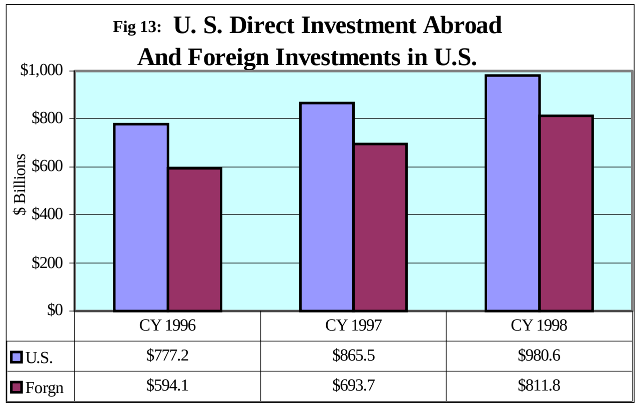


Fig 13: U. S. Direct Investment Abroad And Foreign Investments in U.S.

A goal of U.S. international economic policy is to increase the free flow of goods, services and capital worldwide. Two progress indicators are the levels of U.S. direct investment abroad and foreign direct investment in the U.S. Direct investments, rather than portfolio or stock investments, are those in which an individual or business buys or holds over 10 percent of the equity in a foreign firm. As shown, both types of investments have increased each year from 1996 through 1998 (see Fig. 13). The 1999 investment amounts are not yet available.

Treasury Programs:

To establish a policy framework for international investments, two Treasury offices are principally involved. The Under Secretary for International Affairs, working with the State Department and U.S. Trade Representative, negotiates investment treaties with other countries. Treasury serves as Chair of the Committee on Foreign Investment in the U.S., a Government committee with the dual purpose of preserving the principles of an open U.S. investment policy while protecting U.S. national security. The Assistant Secretary for Tax Policy develops policies on taxation of international income, negotiates tax treaties with other countries, and supports negotiations of investment treaties.

Treasury works to reduce vulnerability to financial crises and risks to the international financial system. There are significant challenges. With increased globalization and complexity has come a rapid increase in the volume of financial transactions, types of financial instruments, and the number of global players. Economic and financial shocks are difficult to predict, and the effectiveness of our responses to them depends largely on the reaction of financial markets and the adequacy of policies adopted by other countries. Treasury works to strengthen financial systems, maintain sustainable exchange rate systems and regimes, discourage through prudential measures excessive short-term capital flows and improve debt management. When financial crises do occur, we recommend prompt action on a mix of domestic policy reforms, external official support, and involvement of the country's private sector creditors. Other strategies are to establish a network to address emergencies, assess the risk posed by global firms and maintain high standards for their effective management controls, encourage cooperation among regulators and the private sector, and enhance openness and transparency through public disclosure and meaningful risk-based reporting

FY 1999 Accomplishments and Results:

- ***Financial Stability Forum.*** A significant Treasury accomplishment in 1999 was helping to create the international Financial Stability Forum (FSF), which convened in Washington in April 1999 and is a key part of Treasury's proposal to improve the global financial system or architecture. The FSF mission is to assess vulnerabilities of the international financial system, identify and oversee actions needed to deal with them, and improve coordination among the various authorities responsible for financial stability. Membership in the forum consists of several international financial organizations and banking committees, and the Governments of the Group of Seven (G-7) nations (Canada, France, Germany, Italy, Japan, the U.K. and the U.S.) plus Australia, Hong Kong, the Netherlands and Singapore.

- ***Foreign Acquisitions in the U.S.*** Treasury chairs the Committee on Foreign Investment in the U.S. (CFIUS), which was established by Executive Order. CFIUS implements, on behalf of the President, the "Exon-Florio Provision" of the Defense Production Act, which provides for a national security review of foreign acquisitions. CFIUS seeks to preserve the principles of an open investment policy while protecting national security. In 1999, Treasury reviewed 79 foreign acquisitions of U.S. businesses.

- ***U.S. Investments Abroad.*** Working with the Department of State and U.S. Trade Representative, Treasury encouraged foreign Governments to open their economies to U.S. investors and investment. One progress indicator is the level of U.S. direct investment abroad. Direct investments (rather than portfolio or stock investments) are those in which a U.S. individual or business buys or holds over 10 percent of the equity in a foreign company. U.S. direct investment abroad totaled $980 billion in calendar year 1998, an increase of 13% over the 1997 level of $866 billion. Data on calendar year 1999 will not be available until July 2000.

- ***Taxation of Foreign Source Income.*** Treasury helps stimulate foreign investment through tax policies that avoid "double taxation" by the U.S. and another country. For example, if a U.S. firm has a subsidiary in a foreign country and pays taxes to that country on its income earned there, the firm may not have to pay U.S. taxes on that income.

Following is a report on the performance targets in Treasury's FY 1999 Performance Plan related to this objective:

Departmental Offices Performance Goal: *Help strengthen the stability and efficiency of global capital markets and promote a sound global policy framework for international investment.*

	FY 1998 Actuals	FY 1999 Plan	FY 1999 Actuals
Negotiate Bilateral and Multilateral Agreements with Other Countries to Stimulate Foreign Investments by U.S. Firms	--	Qualitative Progress	See Below

Explanation of Measure: This is an indicator of U.S. activities in negotiating agreements with other countries to ensure that foreign markets are open to investment by U.S. firms.

Explanation of Actuals: In FY 1999, Treasury worked on, but did not complete, negotiations on several Bilateral Investment Treaties between the U.S. and individual countries (Peru, Venezuela, Korea and Vietnam).

Departmental Offices Performance Goal: *Help strengthen the stability and efficiency of global capital markets and promote a sound global policy framework for international investment.*

	CY 1998 Actuals	CY 1999 Plan	CY 1999 Actuals
Level of U.S. Direct Investment Abroad ($ in billions)	$981 (Corrected Actual)	Increased Investment	Data Not Available

Explanation of Measure: Direct investments are those where the U.S. investor owns more that 10 percent of the equity in a foreign company.

Explanation of Actuals: In CY 1998, U.S. direct investment abroad totaled $981 billion, a 13 percent increase over the 1997 level of $866 billion. Data on CY 1999 investments will not be available until July 2000 and will be reported in next year's performance report.

Treasury Objective: Pursue Exchange Rate Policies to Promote World Economic Growth and Financial Stability

Key Trends:

Global financial stability and economic growth are in the U.S. national interest. In this increasingly interdependent world, one Nation's financial crisis can have global consequences that affect the U.S. economy and each American. In a rapidly changing international financial system, currency exchange rate systems (or regimes) must cope with change over time. Factors in helping assure global financial stability are a stable system of exchange rates and flexible but orderly exchange rate arrangements.

An indicator of success is avoiding large and sustained misalignment of currency exchange markets that would cause significant economic and financial disruptions. When a crisis has arisen, the U.S. has worked with other countries and international organizations to stabilize currency exchange markets and resolve the crisis quickly.

Treasury Programs:

Treasury represents the U.S. internationally on monetary issues and plays a key role in charting the course in the evolution of the international financial system.

- ***Monitoring Exchange Rates.*** To help avoid currency crises that cause financial and economic disruptions, Treasury continually monitors the value of U.S. currency against the currencies of our major trading partners and other countries, and prepares analyses of market developments, risks and vulnerabilities.

- ***Exchange Stabilization Fund.*** Treasury has primary responsibility for U.S. foreign exchange operations. Through its Exchange Stabilization Fund, with over $40 billion in assets, Treasury can achieve U.S. interests by dealing with excessive fluctuations or significant deviations in currency values. Treasury helps other countries establish exchange rate systems that are appropriate, command the trust of domestic citizens and foreign investors, accommodate regional and global integration, and remain resilient over time.

- ***International Monetary Fund.*** Working through the International Monetary Fund and with other G-7 nations (Canada, France, Germany, Italy, Japan, and the U.K.), Treasury develops and implements policies that promote a stable system of exchange rates and flexible but orderly currency exchanges.

FY 1999 Accomplishments and Results:

- ***Egypt.*** Treasury worked closely with the Government of Egypt to express U.S. concern about Egypt's policies of restricting access to foreign exchange. Treasury encouraged the Egyptian leadership to adopt more flexible monetary and exchange rate policies. Following elections in 1999, the new cabinet indicated they might consider somewhat more flexible policies, and a few limited steps have been taken to ease foreign exchange shortages. Treasury continues to press the Egyptian authorities for more progress in this area.

- ***Brazil.*** Treasury led international efforts to stabilize the financial crisis that culminated in Brazil's currency devaluation in 1999. The Secretary endorsed an international $40.5 billion emergency support package for Brazil. This support, combined with Brazil's economic reforms in addressing its public finance problems, has been successful to date in stabilizing Brazil's economic situation.

- ***Indonesia.*** Treasury closely monitored Indonesia's economic developments and has been closely engaged with senior Indonesian economic officials to help resolve their serious economic and financial problems. Indonesia's outlook has improved greatly from a year ago. Indonesian currency has strengthened, inflation has fallen sharply, and the economy has stopped contracting. Treasury took the lead in getting the International

Monetary Fund to urge the Indonesian Government to end the bloodshed in East Timor and to take steps to resolve the Bank Bali scandal. These efforts helped to improve the foreign investor confidence essential to resolving the country's financial problems and stabilizing its economy.

- ***Bosnia.*** Treasury played a lead role in achieving widespread acceptance of the new Bosnian national currency and helped avoid the enormous risks of establishing a new currency in a Nation transitioning from a Government-controlled to a market-based economy. In a transitional Nation, an inappropriate exchange rate system and an insufficiently developed domestic financial system may pose significant threats to the country's financial stability.

- ***International Monetary Fund (IMF) Policies.*** Treasury urged the IMF to identify weakness in countries' national exchange rate policies, and to encourage those countries to change their policies before they created a crisis.

The following table reports on performance targets in Treasury's FY 1999 Performance Plan related to this objective. It should be noted that it is difficult to attribute successful performance in foreign affairs to a specific agency because international efforts are coordinated by several U.S. agencies. Also, the issues are complex and numerous factors affect the outcome.

Departmental Offices Performance Goal: *Pursue exchange rate policies to promote world economic growth and financial stability.*

Avoidance of Large and Sustained Misalignment of Exchange Markets that would Cause Significant Economic and Financial Dislocations	**FY 1998 Actuals**	**FY 1999 Plan**	**FY 1999 Actuals**
	--	Qualitative Progress	See Below

Explanation of Measure: The indicator of success is the leadership the U.S. has shown in developing policies that help avoid financial crises and in dealing with these crises quickly when they do occur.

Explanation of Actuals: In FY 1999, major foreign exchange rates did not fluctuate significantly against the U.S. dollar. Treasury urged the International Monetary Fund to identify weakness in national exchange rate policies and to encourage those countries to change their policies before they created a crisis. Treasury's efforts to help maintain a stable system of currency exchange rates and avoid significant financial dislocations are discussed above in the section, *FY 1999 Accomplishments and Results*.